

Financial Statements
Manistee-Benzie Community
Mental Health Services
Manistee, Michigan
September 30, 2008



Manistee-Benzie Community Mental Health Services
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September 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board), as of and for the year ended September 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Board as of September 30, 2008, and the respective changes in financial position and, cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The script is cursive and fluid, with the company name written in a single line.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 16, 2009

MANAGEMENT'S DISCUSSION and ANALYSIS



Manistee Benzie Community Mental Health Services
Financial Statements for the Fiscal Year Ended September 30, 2008
Management's Discussion and Analysis

The management of Manistee-Benzie Community Mental Health Services presents the following overview and analysis of the financial activities during the past year. Manistee-Benzie Community Mental Health Services was organized under the Urban Cooperation Act between the Board of Commissioners of Manistee County and Benzie County in 1992.

This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Overview of Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

Fund financial statements offer a series of statements that focus on the major governmental funds. For Manistee-Benzie Community Mental Health, the major funds consist of the following funds: General, Building, Health, and Motor Pool. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements.

Notes to Financial Statements:

The Notes to the Financial Statements, which immediately follow the Financial Statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the Financial Statements.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which required a minimum of 20,000 or more Medicaid covered lives. Manistee-Benzie Community Mental Health, which currently has approximately 6,100 total Medicaid lives, entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Ionia County Community Mental Health, Newaygo County Community Mental Health, and Gratiot County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan. Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the eight county region.

Clinton Eaton Ingham Community Mental Health has sub-contracted with Manistee-Benzie Community Mental Health to provide Medicaid covered services for the counties of Manistee and Benzie. The affiliation has formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Manistee Benzie Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Department of Community Health for general funds.

Operating and Financial Highlights

The fiscal year 2007/2008 final budget adopted by the governing board for the general fund was Revenue of \$11,834,025 and Expenditures of \$12,430,913. The governing board approved the funding deficit to be drawn from the fund balance account. The Actual compared to Budget for the general fund is presented below.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$11,908,543	\$11,834,025	\$ 74,518
Expenditures	\$12,288,317	\$12,430,913	\$142,596
Change in Fund Balance	(\$379,774)	(\$596,888)	\$217,114

The comparison of fiscal year 2007/2008 as compared to fiscal year 2006/2007 is presented below. These amounts are for the general fund of Manistee-Benzie Community Mental Health.

	<u>2007/2008</u>	<u>2006/2007</u>	<u>Difference</u>
Revenues	\$11,908,543	\$11,524,145	\$384,398
Expenditures	\$12,288,317	\$11,541,223	\$747,094

The change in revenues recognized in the general fund between the 2007 and 2008 fiscal years was an increase of 3%. The increase was due to increased grant funding, and a Medicaid funding rate increase. Expenditures increased by 6%.

The Department of Community Health Medicaid Financial Audit and the limited scope audit of proprietary funds field work has been completed. A final report has not been issued at this time.

Employment Issues The turnover rate for Manistee Benzie Community Mental Health during the past fiscal year was 9.18% compared to the Bureau of Labor Statistics published turnover rate of 39.6%.

During the 2007 fiscal year, the Manistee-Benzie Community Mental Health Board of Directors terminated the Executive Director's contract. Subsequently the former Executive Director sued the Board of Directors for damages and re-instatement. The lawsuit is currently still in process.

The Interim Executive Director appointed by the Board of Directors in 2007 left the agency in May 2008. The Interim Executive Director appointed in May 2008 was hired by the Manistee Benzie Community Mental Health Board of Directors as the Executive Director in August 2008. His contract term began in October 2008.

During the 2008 fiscal year the six member Administrative Team was reduced to 3 members due to turnover. Each member of the team added additional responsibilities. At the end of the fiscal year the membership had increased to four.

Electronic Medical Records Manistee Benzie Community Mental Health implemented an electronic medical record system in August of 2004. During the 2008 fiscal year there were further updates of the Electronic Medical (Health) record due to ongoing regulatory requirements.

Funding Issues

Local County Match Due to budget cuts during the past several years Manistee Benzie Community Mental Health has lost most of its ability to earn revenues that can be used to supplement the County obligation. During 2007 both Manistee and Benzie County agreed to a three year plan to be fully funded at the end of that time. During 2008 both counties increased their funding as agreed to in the plan. It is expected that in 2010 both counties will fully fund their community mental health obligation.

State General Funds Manistee Benzie Community Mental Health continues to receive the second lowest per capita funding in relationship to county residents at or below the 200% poverty level in the entire state. It is primarily this population that are indigent and require General Funds to cover the cost of services required under the Michigan Mental Health Code (PA 258). Manistee Benzie Community Mental Health was told by DCH staff in 2006 to use its unrestricted local fund balance to cover costs of services that would otherwise (in other Counties) be covered with State General Funds. The unrestricted local fund balance is currently at a level recommended by recent audits to be available for emergency shortfalls or other financial emergencies. The majority of the General Funds are currently being used to pay for Medicaid spend downs, indigent local psychiatric hospital services, State Facility services, jail services, and to supplement inadequate funding for MI Child, the Adult Benefit Waiver, and the Children's Waiver. During this current fiscal year, as well as the prior fiscal year, the Board of Directors approved use of the fund balance to maintain current service needs.

Medicaid Funding Subcontract For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period ended September 30, 2005. The new funding formula calculated within the affiliation by the PIHP, resulted in \$2,335,000 less Medicaid funds for Manistee Benzie Community Mental Health for the 2006 fiscal year. In anticipation of the funding reduction for the 2006 fiscal year Manistee Benzie Community Mental Health reviewed programs and services, and left several vacant positions unfilled. As part of the overall budget reduction the PIHP's level of care guidelines were adopted. In addition the entire Manistee Benzie

CMH operations service structure was revamped based on the PIHP service model. Under the umbrella of long term and short term care this model includes more of a focus on Crisis Management as opposed to traditional outpatient clinical services. This new model also includes a more flexible staffing model, which enabled us to better move resources to where there is the most need.

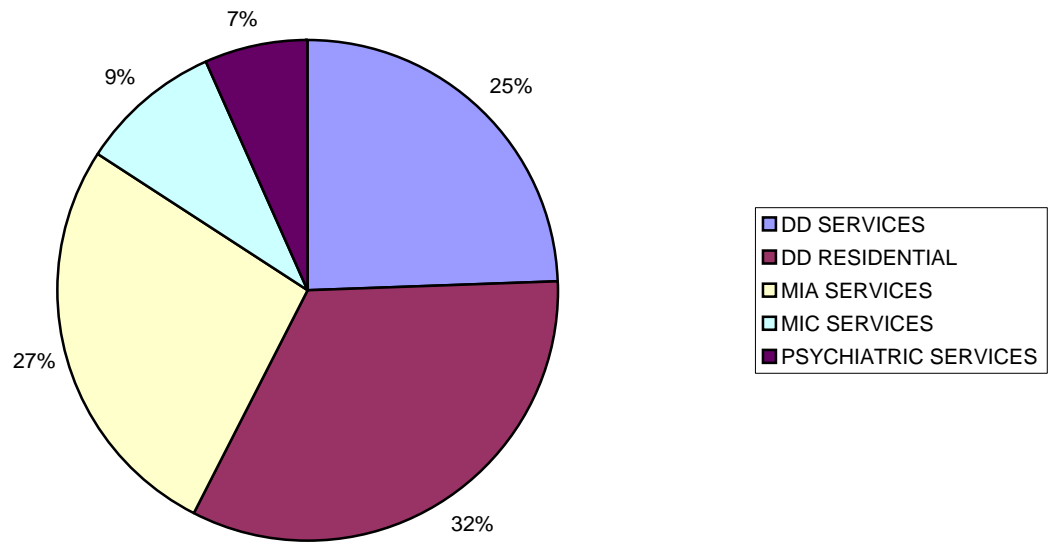
Using the new service model, Substance Abuse services to persons who were not severely and persistently mentally ill were eliminated, as that program had required substantial use of local funds. Other services such as Community Living Supports and Supported Employment also were reduced. Reductions were based on analysis of appropriate service levels per client diagnosis.

Thirty-six full time and part time staff positions were cut as a result of the budget reductions, including staff from all areas of the agency. In addition to staff position reductions a variety of other steps were taken to lessen the impact on services to consumers.

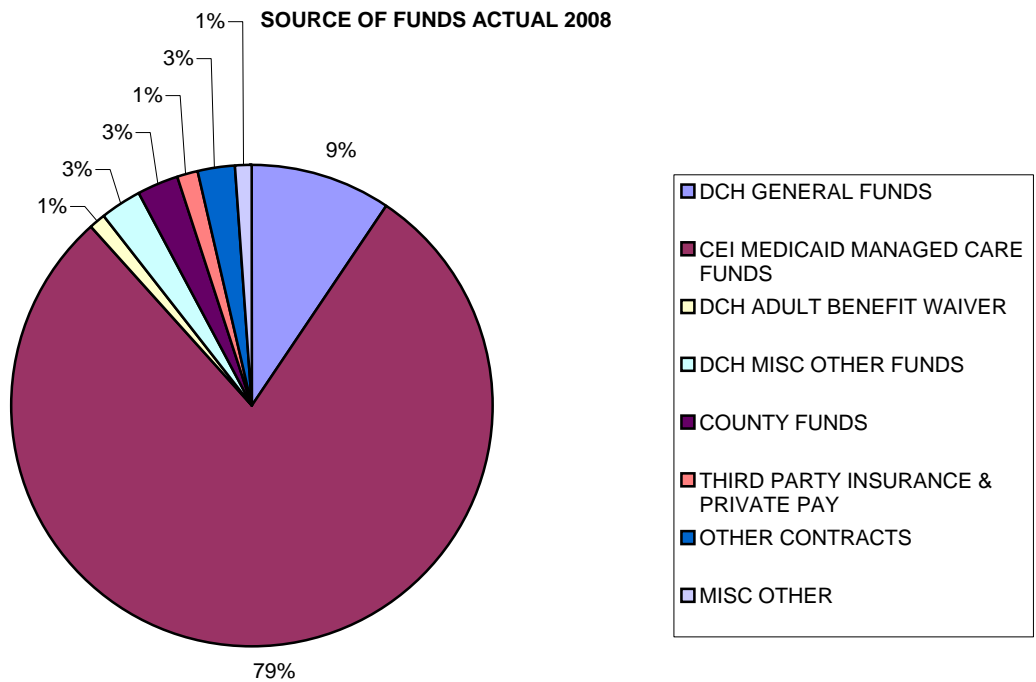
The impact on client services was not as great as expected. While some areas saw service unit decreases, such as community living supports, skill building, and supported employment, other areas, such as respite and client service management saw increases. During 2008 we saw additional service increases in respite, school based services and residential service.

Funding Sources The Medicaid Managed Care Subcontract with the PIHP, Clinton Eaton Ingham CMH, represents 79% of the total revenue, while State Contracts with the Department of Community Health represent 13%. County appropriations are 3% of total revenue, and the remaining 5% is from miscellaneous local contracts and grants, interest income, and third party charge revenue.

USE OF FUNDS ACTUAL 2008



SOURCE OF FUNDS ACTUAL 2008



BASIC FINANCIAL STATEMENTS - GOVERNMENT WIDE FINANCIAL STATEMENTS



Manistee-Benzie Community Mental Health Services
Statement of Net Assets
September 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 3,864,347	\$ 3,889,786
Accounts receivable, net	76,312	9,314
Due from other governmental units	133,369	358,044
Prepaid expenses	366,742	453,972
Total current assets	4,440,770	4,711,116
Noncurrent assets		
Capital assets - depreciable, net	471,655	564,235
Capital assets - land	115,200	115,200
Total noncurrent assets	586,855	679,435
Total assets	5,027,625	5,390,551
Liabilities		
Current liabilities		
Accounts payable	453,754	369,194
Accrued liabilities	182,292	70,629
Accrued payroll and related liabilities	281,177	244,194
Due to other governmental units	25,291	42,887
Total current liabilities	942,514	726,904
Net assets		
Invested in capital assets, net of related debt	586,855	679,435
Unrestricted	3,498,256	3,984,212
Total net assets	\$ 4,085,111	\$ 4,663,647

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Statement of Activities
For The Year Ended September 30, 2008, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2007
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$ 12,542,158</u>	<u>\$ 9,991,523</u>	<u>\$ 1,795,293</u>	\$ (755,342)	\$ (184,787)
General revenues					
Unrestricted investment earnings				121,727	187,284
Restricted investment earnings				296	2,528
Gain (Loss) on disposal of capital assets				-	(118,920)
Internal service fund revenues, net of charges to the general fund				<u>54,783</u>	<u>51,587</u>
Total general revenues and contributions				<u>176,806</u>	<u>122,479</u>
Change in net assets				(578,536)	(62,308)
Net assets - beginning of year				4,663,647	4,819,225
Prior period adjustment				<u>-</u>	<u>(93,270)</u>
Net assets - end of year				<u>\$ 4,085,111</u>	<u>\$ 4,663,647</u>

See Accompanying Notes to Financial Statements

FUND FINANCIAL STATEMENTS



Manistee-Benzie Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2008 and 2007

	General Fund	
	2008	2007
Assets		
Cash and cash equivalents	\$ 3,794,215	\$ 3,822,612
Accounts receivable, net	76,312	9,314
Due from other governmental units	133,369	358,044
Prepaid expenses	108,194	164,068
Total assets	<u>\$ 4,112,090</u>	<u>\$ 4,354,038</u>
Liabilities		
Accounts payable	\$ 453,754	\$ 369,194
Accrued liabilities	72,766	40,629
Accrued payroll and related liabilities	281,177	244,194
Due to other governmental units	25,291	42,887
Due to other funds	917,641	915,899
Total liabilities	<u>1,750,629</u>	<u>1,612,803</u>
Fund equity		
Reserved for prepaid expenditures	108,194	164,068
Unreserved	<u>2,253,267</u>	<u>2,577,167</u>
Total fund equity	<u>2,361,461</u>	<u>2,741,235</u>
Total liabilities and fund equity	<u>\$ 4,112,090</u>	<u>\$ 4,354,038</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For The Year Ended September 30, 2008

Total fund balance - governmental funds	\$ 2,361,461
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the general fund.

Add: capital assets	624,767
Deduct: accumulated depreciation	(564,152)

Internal service funds are used by management to charge the costs of certain activities, such as vehicle operations, building usage, and health benefits to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.

1,663,035

Net assets of governmental activities	<u><u>\$ 4,085,111</u></u>
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See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Years Ended September 30, 2008 and 2007

	General Fund	
	2008	2007
Revenues		
State Grants		
Department of Community Health Contract general fund formula and categorical	\$ 1,275,396	\$ 1,270,744
Other State grants	9,528	9,824
Total State grants	<u>1,284,924</u>	<u>1,280,568</u>
Federal grants	<u>171,734</u>	<u>194,311</u>
Contributions - local units		
County appropriations	<u>333,673</u>	<u>298,951</u>
Charges for services		
Medicaid - CEI CMH contract	9,389,233	9,121,025
Medicaid - other	144,526	68,717
Client and third party pay	123,047	89,980
Other contract revenue	<u>334,717</u>	<u>262,886</u>
Total charges for services	<u>9,991,523</u>	<u>9,542,608</u>
Interest and rents		
Interest	<u>121,727</u>	<u>187,284</u>
Other revenue	<u>4,962</u>	<u>20,423</u>
Total revenues	11,908,543	11,524,145
Expenditures		
Health & Welfare - Mental Health		
Personnel costs	5,531,039	5,538,881
Operating expenditures	6,735,554	6,002,342
Capital outlay	<u>21,724</u>	<u>-</u>
Total expenditures	<u>12,288,317</u>	<u>11,541,223</u>
Excess of revenues over expenditures	(379,774)	(17,078)
Fund balance, beginning of year	2,741,235	2,851,583
Prior period adjustment	<u>-</u>	<u>(93,270)</u>
Fund balance, end of year	<u>\$ 2,361,461</u>	<u>\$ 2,741,235</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For The Year Ended September 30, 2008

Net change in fund balances - total governmental funds	\$ (379,774)
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Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense.

Add:	capital outlay	21,724
Deduct:	depreciation expense	(55,313)

Internal service funds are used by management to charge the
costs of certain activities, such as vehicle operations, building
usage, and health benefits, to the general fund. The net revenue
(expense) of certain internal service funds is reported with
governmental activities.

(165,173)

Change in net assets of governmental activities

\$ (578,536)

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combined Statement of Net Assets
Proprietary Funds
September 30, 2008 and 2007

	Internal Service Funds	
	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 70,132	\$ 67,174
Due from other funds	917,641	915,899
Prepaid expenses	258,548	289,904
Total current assets	1,246,321	1,272,977
Noncurrent assets		
Capital assets - depreciable, net	411,040	470,031
Capital assets - land	115,200	115,200
Total noncurrent assets	526,240	585,231
Total assets	<u>\$ 1,772,561</u>	<u>\$ 1,858,208</u>
Liabilities		
Current liabilities		
Accrued liabilities	\$ 109,526	\$ 30,000
Total current liabilities	109,526	30,000
Net assets		
Invested in capital assets, net of related debt	526,240	585,231
Unrestricted	1,136,795	1,242,977
Total net assets	1,663,035	1,828,208
Total liabilities and net assets	<u>\$ 1,772,561</u>	<u>\$ 1,858,208</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combined Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Years Ended September 30, 2008 and 2007

	Internal Service Funds	
	2008	2007
Operating revenues		
Charges for services and rent	\$ 1,152,546	\$ 1,282,669
Operating expenses		
Health claims	1,124,368	929,001
Vehicle expense	41,785	33,713
Depreciation	72,825	129,929
Maintenance	47,793	22,584
Insurance	23,589	30,439
Other	7,655	3,707
Total operating expenses	1,318,015	1,149,373
Operating income (loss)	(165,469)	133,296
Non-operating revenues (expenses)		
Interest income	296	2,528
Gain/(loss) on sale of capital assets	-	(118,920)
Total non-operating expense	296	(116,392)
Excess of revenues over expenditures	(165,173)	16,904
Net assets, beginning of year	1,828,208	1,811,304
Net assets, end of year	<u>\$ 1,663,035</u>	<u>\$ 1,828,208</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combined Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2008 and 2007

	Internal Service Funds	
	2008	2007
Cash flows from operating activities		
Receipts from interfund services provided	\$ 1,147,429	\$ 1,021,057
Receipts from others	3,375	40,741
Payment to suppliers	(1,134,308)	(1,073,727)
Net cash provided (used) by operating activities	16,496	(11,929)
Cash flows from capital and related financing activities		
Proceeds from sales of capital assets	-	14,315
Purchase of capital assets	(13,834)	(24,708)
Net cash provided (used) by capital and related financing activities	(13,834)	(10,393)
Cash flows from investing activities		
Proceeds from interest earnings	296	2,528
Net cash provided (used) by investing activities	296	2,528
Net increase (decrease) in cash and cash equivalents	2,958	(19,794)
Cash and cash equivalents, beginning of year	67,174	86,968
Cash and cash equivalents, end of year	<u>\$ 70,132</u>	<u>\$ 67,174</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (165,469)	\$ 133,296
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	72,825	129,929
(Increase) decrease in prepaid expenses	31,356	(2,485)
(Increase) decrease in due from other funds	(1,742)	(220,870)
Increase (decrease) in accrued liabilities	79,526	(51,799)
Net cash provided (used) by operating activities	<u>\$ 16,496</u>	<u>\$ (11,929)</u>
Supplemental Disclosure:		
Significant noncash transactions:		
Disposal of real-estate resulting in prepaid asset for maintenance fees:	<u>\$ -</u>	<u>\$ 272,263</u>

See Accompanying Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS



Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manistee-Benzie Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates as a Community Mental Health Board under the provisions of Act 258 of the Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Manistee and Benzie Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to the general fund for vehicle operations, building operations, and insurance services. Operating expenses for internal service funds include vehicle operations, building operations, and insurance claims. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments on a cost-reimbursement basis. The Motor Pool Fund, Building Fund and Health Fund are reported as Internal Service Funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Capital assets of the Board are depreciated using the straight-line method over their estimated useful lives. Vehicles are depreciated using an accelerated method over their estimated useful lives. Following is a breakdown of estimated useful lives used:

Assets	Years
Computers and Office Equipment	5 - 12
Software	3 - 5
Vehicles	5
Buildings and Improvements	7 – 40
Land	Not Depreciated

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are an example of the latter.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Manistee and Benzie Counties.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan for Medicaid-qualified services rendered to residents of Manistee and Benzie Counties. The Community Mental Health Affiliation of Mid-Michigan contracts with the MDCH to administer these Medicaid funds.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2008, the Board incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	2008	2007
Petty cash	\$375	\$475
Cash and cash equivalents	2,771,494	3,055,895
Certificates of deposit	1,092,478	833,416
Totals	\$3,864,347	\$3,889,786

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. At September 30, 2008, the carrying amount of the Board's deposits was \$3,863,972, and the bank balance was \$4,194,394. Of the bank balance, \$300,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2008, the Board had no such investments.

The Board's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Board does not have any additional policies for custodial credit risk over investments.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

Governmental Unit	2008	2007
Michigan Department of Community Health – OBRA Grant	\$9,989	\$4,322
Federal Block Grants	37,955	62,776
Benzie County	33,402	29,425
Manistee County	-	22,438
Clinton, Eaton, Ingham CMH Authority	19,368	211,931
Manistee Intermediate School District	19,000	18,750
Various Other Governmental Units	13,655	8,402
Totals	\$133,369	\$358,044

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Changes in Capital Assets

A summary of changes in the capital assets follows:

	Beginning Balance	Additions	Disposals	Ending Balance
ASSETS				
Computers, Software and Office Equipment	\$603,043	\$21,724	\$-	\$624,767
Vehicles	439,221	-	(19,506)	419,715
Buildings and Improvements	894,816	13,834	-	908,650
Land	115,200	-	-	115,200
Sub-totals	2,052,280	35,558	(19,506)	2,068,332
ACCUMULATED DEPRECIATION				
Computers, Software and Office Equipment	(508,839)	(55,313)	-	(564,152)
Vehicles	(381,460)	(30,685)	19,506	(392,639)
Buildings and Improvements	(482,546)	(42,140)	-	(524,686)
Sub-totals	(1,372,845)	(128,138)	19,506	(1,481,477)
Totals	\$679,435	(\$92,580)	\$-	\$586,855

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2008	2007
State of Michigan – Inpatient/Residential Care	\$18,332	\$35,053
State of Michigan – Lease Expense	6,959	6,921
State of Michigan – Escheats	-	913
Total	\$25,291	\$42,887

NOTE 4 - OTHER INFORMATION

Retirement System

Plan Description

The Board sponsors a Money Purchase Pension Plan (the “Plan”). The Plan is a tax-qualified defined contribution pension plan. As of January 1, 2005, the Board amended this plan effectively merging the Money Purchase Pension Plan with the Retirement Investment Plan. Employees of the Board are generally eligible to participate in the Money Purchase Pension Plan following their attainment of age 18 and completion of six months of service. Employees of the Board are eligible to participate in the Retirement Investment Plan following the completion of one hour of service. As a condition of employment, each participant must agree to contribute 6.2% of his or her compensation to the Retirement Investment Plan.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Funding Policy

Contributions made in respect to the Money Purchase Pension Plan are considered "Base Contributions". Contributions made in respect to the Retirement Investment Plan are considered "Pick-Up" contributions. The Board contributes an amount to each participant's account equal to 7% of the participant's compensation for base contributions. The Board also contributes an amount equal to 6.2% of the participant's compensation for the pick-up contributions. As a condition of employment, each participant must agree to also contribute 6.2% of his or her compensation to the plan. Employees are fully vested in pick-up contributions at all times; however, withdrawals from the pick-up contributions are not allowed prior to termination of employment. For the year ended September 30, 2008, the Board's contribution to these plans totaled \$495,796.

Compliance Audits

The Board participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies.

The Michigan Department of Community Health has conducted a compliance audit of the Board's internal service funds. As of the date of this report, the Board has not received a formal written report from the MDCH regarding their audit. However, the Board is preparing to challenge some of the preliminary findings brought to their attention during the compliance audit. The resolution of this compliance audit is expected to have a material impact on the Board's financial statements, however, the amount of the contingent liability cannot be reasonably estimated.

These financial statements do not reflect any contingent liability in relation to this compliance audit.

Risk Management

Michigan Municipal Risk Management Authority

The Board is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Board is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Member's Self Insured Retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Board.

For the period July 1, 2008 through July 1, 2009, the Board's coverage limits are from \$2,000 up to \$5,000,000 for liability and from \$10,000 up to \$50,000,000 for property and crime. The expense recognized by the Board for this type of risk management coverage for this time period totaled \$46,762.

Self-Insured Medical Benefits

The Board has established a self-insurance plan covering certain medical, dental and vision benefits for substantially all of its employees. An internal service fund has been established to pay benefit claims and is funded by the general fund based on projected claims. The Board maintains specific stop-loss coverage of \$40,000 per person each year.

Estimates for the liability for unpaid claims are based on actual claims in process as of the year end. Incurred, but unreported, claims are estimated by management to be insignificant.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Change in Accounting Principal / Restatement

The Board reports governmental fund financial statement revenues using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Effective for the year ended September 30, 2007, the Board has changed its policy for revenue recognition of client and 3rd party pay for services provided to the cash basis of accounting. The Board believes this application is more appropriate when applied to this type of revenue not only because of the difficulty in estimating amounts that will be received, but also to follow required reporting to the Michigan Department of Community Health. The effect of this change in application of accounting principal for the fiscal year ending September 30, 2007 is to reduce the receivable, accounts receivable, net, and produce a prior period adjustment of \$93,270.

REQUIRED SUPPLEMENTAL INFORMATION



Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For The Year Ended September 30, 2008

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Contract general fund formula and categorical	\$ 1,276,482	\$ 1,276,969	\$ 1,275,396	\$ (1,573)
Other State grants	10,248	10,248	9,528	(720)
Total State grants	<u>1,286,730</u>	<u>1,287,217</u>	<u>1,284,924</u>	<u>(2,293)</u>
Federal grants	<u>177,382</u>	<u>164,306</u>	<u>171,734</u>	<u>7,428</u>
Contributions - local units				
County appropriations	<u>420,000</u>	<u>333,673</u>	<u>333,673</u>	<u>-</u>
Charges for services				
Medicaid - CEI CMH contract	9,318,783	9,376,713	9,389,233	12,520
Medicaid - other	100,000	120,000	144,526	24,526
Client and third party pay	123,994	93,000	123,047	30,047
Other contract revenue	264,938	334,316	334,717	401
Total charges for services	<u>9,807,715</u>	<u>9,924,029</u>	<u>9,991,523</u>	<u>67,494</u>
Interest and rents				
Interest	<u>185,000</u>	<u>120,000</u>	<u>121,727</u>	<u>1,727</u>
Other revenue	<u>13,750</u>	<u>4,800</u>	<u>4,962</u>	<u>162</u>
Total revenues	<u>11,890,577</u>	<u>11,834,025</u>	<u>11,908,543</u>	<u>74,518</u>
Expenditures				
Health & Welfare - Mental Health				
Personnel costs	5,708,400	5,742,953	5,531,039	211,914
Operating expenditures	6,180,682	6,687,960	6,735,554	(47,594)
Capital outlay	<u>-</u>	<u>-</u>	<u>21,724</u>	<u>(21,724)</u>
Total expenditures	<u>11,889,082</u>	<u>12,430,913</u>	<u>12,288,317</u>	<u>142,596</u>
Excess of revenues over expenditures	1,495	(596,888)	(379,774)	217,114
Fund balance, beginning of year	<u>2,741,235</u>	<u>2,741,235</u>	<u>2,741,235</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,742,730</u>	<u>\$ 2,144,347</u>	<u>\$ 2,361,461</u>	<u>\$ 217,114</u>

See Accompanying Notes to Financial Statements

OTHER SUPPLEMENTAL INFORMATION



Manistee-Benzie Community Mental Health Services
Supporting Schedule of Personnel Costs
For The Years Ending September 30, 2008 and 2007

Governmental Fund Types

General Fund

	<u>2008</u>	<u>2007</u>
Personnel costs		
Salaries and wages	\$ 4,036,778	\$ 3,960,502
Fringe benefits	<u>1,494,261</u>	<u>1,578,379</u>
Total personnel costs	<u>\$ 5,531,039</u>	<u>\$ 5,538,881</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Supporting Schedule of Operating Expenditures
For The Years Ending September 30, 2008 and 2007

Governmental Fund Types

General Fund

	<u>2008</u>	<u>2007</u>
Operating expenditures		
Contractual services	\$ 5,658,109	\$ 4,944,866
Client supplies	68,724	76,554
Insurance	22,732	33,627
Office and computer supplies	9,057	6,482
Operating supplies	67,538	46,231
Other	70,494	43,966
Rent	212,105	270,253
Repairs and maintenance	43,239	63,604
Small equipment purchases	69,308	43,051
Staff development and training	57,480	51,004
Telephone and utilities	142,075	142,096
Transportation	29,394	16,824
Travel	285,299	263,784
	<u>285,299</u>	<u>263,784</u>
Total operating expenditures	<u>\$ 6,735,554</u>	<u>\$ 6,002,342</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combining Statement of Net Assets
Proprietary Funds
September 30, 2008, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2008	2007
Assets					
Current assets					
Cash and cash equivalents	\$ -	\$ -	\$ 70,132	\$ 70,132	\$ 67,174
Due from other funds	145,575	336,992	435,074	917,641	915,899
Prepaid expenses	11,898	246,650	-	258,548	289,904
Total current assets	157,473	583,642	505,206	1,246,321	1,272,977
Noncurrent assets					
Capital assets - depreciable, net	27,075	383,965	-	411,040	470,031
Capital assets - land	-	115,200	-	115,200	115,200
Total noncurrent assets	27,075	499,165	-	526,240	585,231
Total assets	<u>\$ 184,548</u>	<u>\$ 1,082,807</u>	<u>\$ 505,206</u>	<u>\$ 1,772,561</u>	<u>\$ 1,858,208</u>
Liabilities					
Current liabilities					
Accrued liabilities	\$ -	\$ -	\$ 109,526	\$ 109,526	\$ 30,000
Total current liabilities	-	-	109,526	109,526	30,000
Net assets					
Invested in capital assets, net of related debt	27,075	499,165	-	526,240	585,231
Unrestricted	157,473	583,642	395,680	1,136,795	1,242,977
Total net assets	184,548	1,082,807	395,680	1,663,035	1,828,208
Total liabilities and net assets	<u>\$ 184,548</u>	<u>\$ 1,082,807</u>	<u>\$ 505,206</u>	<u>\$ 1,772,561</u>	<u>\$ 1,858,208</u>

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2008, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2008	2007
Operating revenues					
Charges for services	\$ 108,985	\$ -	\$ 1,007,779	\$ 1,116,764	\$ 1,170,997
Rent	-	35,782	-	35,782	111,672
Total operating revenues	108,985	35,782	1,007,779	1,152,546	1,282,669
Operating expenses					
Health claims	-	-	1,124,368	1,124,368	929,001
Vehicle expense	41,785	-	-	41,785	33,713
Depreciation	30,686	42,139	-	72,825	129,929
Maintenance	22,180	25,613	-	47,793	22,584
Insurance	23,589	-	-	23,589	30,439
Other	751	3,858	3,046	7,655	3,707
Total operating expenses	118,991	71,610	1,127,414	1,318,015	1,149,373
Operating income (loss)	(10,006)	(35,828)	(119,635)	(165,469)	133,296
Non-operating revenues (expense)					
Interest income	-	-	296	296	2,528
Gain/(loss) on sale of capital assets	-	-	-	-	(118,920)
Total non-operating revenues (expense)	-	-	296	296	(116,392)
Excess of revenues over expenditures	(10,006)	(35,828)	(119,339)	(165,173)	16,904
Net assets, beginning of year	194,554	1,118,635	515,019	1,828,208	1,811,304
Net assets, end of year	\$ 184,548	\$ 1,082,807	\$ 395,680	\$ 1,663,035	\$ 1,828,208

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combining Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2008, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2008	2007
Cash flows from operating activities					
Receipts from interfund services provided	\$ 79,187	\$ 17,692	\$ 1,050,550	\$ 1,147,429	\$ 1,021,057
Receipts from others	3,375	-	-	3,375	40,741
Payment to suppliers	(82,562)	(3,858)	(1,047,888)	(1,134,308)	(1,073,727)
Net cash provided (used) by operating activities	-	13,834	2,662	16,496	(11,929)
Cash flows from capital and related financing activities					
Proceeds from sales of capital assets	-	-	-	-	14,315
Purchase of capital assets	-	(13,834)	-	(13,834)	(24,708)
Net cash provided (used) by capital and related financing activities	-	(13,834)	-	(13,834)	(10,393)
Cash flows from investing activities					
Proceeds from interest earnings	-	-	296	296	2,528
Net cash provided (used) by investing activities	-	-	296	296	2,528
Net increase (decrease) in cash and cash equivalents	-	-	2,958	2,958	(19,794)
Cash and cash equivalents, beginning of year	-	-	67,174	67,174	86,968
Cash and cash equivalents, end of year	\$ -	\$ -	\$ 70,132	\$ 70,132	\$ 67,174

See Accompanying Notes to Financial Statements

Manistee-Benzie Community Mental Health Services
Combining Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2008, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2008	2007
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (10,006)	\$ (35,828)	\$ (119,635)	\$ (165,469)	\$ 133,296
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	30,686	42,139	-	72,825	129,929
(Increase) decrease in prepaid expenses	5,743	25,613	-	31,356	(2,485)
(Increase) decrease in due from other funds	(26,423)	(18,090)	42,771	(1,742)	(220,870)
Increase (decrease) in accrued liabilities	-	-	79,526	79,526	(51,799)
Net cash provided (used) by operating activities	<u>\$ -</u>	<u>\$ 13,834</u>	<u>\$ 2,662</u>	<u>\$ 16,496</u>	<u>\$ (11,929)</u>
Supplemental Disclosure:					
Significant noncash transactions:					
Disposal of real-estate resulting in prepaid asset for maintenance fees:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 272,263</u>

See Accompanying Notes to Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board) as of and for the year ended September 30, 2008, which collectively comprise the Board's basic financial statements and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated January 16, 2009.

Manistee-Benzie Community Mental Health Services' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roslund, Prestage & Co, PC". The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 16, 2009

Schedule of Findings and Responses

Finding 2008-1

Finding considered a significant deficiency

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The staff of the Board does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.



MANAGEMENT LETTER

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

In planning and performing our audit of the financial statements for Manistee-Benzie Community Mental Health Services for the fiscal year ended September 30, 2008, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 16, 2009, on the financial statements of Manistee-Benzie Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage & Co, PC'. The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 16, 2009

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Segregation of Duties

During our audit we noted that Manistee-Benzie Community Mental Health Services has taken significant steps to improve internal controls as they relate to the segregation of duties. We commend you on this effort. However, we did note some areas where additional segregation would continue to improve the internal controls of the Board. These areas are as follows:

- Opening of mail: As mail is opened, a list of all checks received should be prepared noting the check number, amount and payor. Also, the list should identify to whom the checks were given to process. This listing should then be signed and dated by the employee opening the mail and forwarded to an individual independent of the depositing function for use in reconciling bank accounts. Also, we noted that mail is currently opened by one employee who is independent of the finance department. This independence is important in relation to segregation of duties. Further internal control over funds received through the mail could be achieved by including another individual, independent of the finance department, in the mail opening process.
- Control of signed accounts payable checks: we recommend that once accounts payable checks have been signed, they be routed to an individual independent of the accounts payable process to mail.

Uninsured Bank Deposits

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

It is our understanding that as of October 2008, the limits for FDIC insured balances are \$250,000 per entity per financial institution. Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the Board's goals.